

HOW TO CHOOSE A STOCKBROKER

**A guide for
beginning
investors**

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This pamphlet is intended to provide a sound foundation on which to build a good working relationship with your stockbroker. You should choose your stockbroker with the same care that you choose other professionals. Your stockbroker should be someone who will listen attentively as you explain your financial needs and who can be trusted to carry out your wishes.

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In general

The person who most people think of as a stock broker is actually a “registered representative” or “account executive”. This is the person who you, as customer, will be primarily dealing with. The company that your account executive works for is a broker-dealer of securities. A broker-dealer and its account executives make money through commissions on securities transactions. A fee is charged whenever you buy or sell. Your broker-dealer and account executive do not make any money from setting up a long-term financial plan for you. This is an important factor to consider: if you are seeking advice on balancing your real estate holdings, life insurance coverage, cash and securities, then you need to look for an investment advisor (sometimes called a financial planner), who will charge a fee for drawing up a total financial plan for you. The financial planner may work with an account executive to manage your securities holdings in harmony with your total financial plan. In some instances an individual may be registered to act as both an account executive and financial planner.

**Full service
or discount?**

The first thing you should consider is whether you want a full-service broker or a discount broker. A full-service broker will recommend particular securities for you to buy; a discount broker only places the orders you give. The advantage to having a full-service broker is that you have a professional on whom you can rely for services and advice. If you don’t understand a kind of transaction, your full service broker can explain it to you. The disadvantage is that a full-service broker is

more expensive. If you do all of your own investment research and call your broker only when you want to place an order, then use of a discount broker may save a considerable amount of money over time. Whether you choose a full-service broker or a discount broker, be certain that the broker you are considering is registered and in good standing with the Securities Division of the Office of the Missouri Secretary of State.

After you have chosen a broker, you still may be able to save money by comparing commission rates. Although there is an acceptable range of commissions, specific rates can vary from firm to firm.

**NASD or
SIPC**

The NASD (National Association of Securities Dealers) is a national organization for broker-dealers in the United States. The NASD serves many functions both to its members and its members' customers. One of the most important functions of the NASD is the requirement that NASD members and their employees abide by the "Rules of Fair Practice". When followed, the rules of fair practice are designed to ensure that securities business is conducted in a way "consistent with just and equitable principles of trade." The NASD watches over its members and takes disciplinary action against those members that violate the rules.

Another important function of the NASD is its arbitration proceeding, which provides a lower-cost alternative to litigation should you have a dispute with your broker or account executive. However, arbitration agreements do not preclude your right to a trial should a dispute arise.

SIPC (Securities Investors Protection Corporation) is an organization that protects investors who

have money or securities in a brokerage account when the broker goes bankrupt. SIPC does not insure your investment in any way, but protects your securities or money when they are in the custody of your broker.

**Choosing
your account
executive**

The following is a list of characteristics and qualifications you should establish in choosing your account executive:

—Easy to talk to. You should feel comfortable with your account executive. The more your account executive knows about your financial situation and goals, the better your account will be served. You will be giving your account executive some very personal information. If you feel uncomfortable, you may not give your account executive as much information as might be needed to properly service your account.

—Doesn't pressure you. You need to keep in mind that your investments must please you, not just your account executive. A good account executive will take the time to find the investment strategy that is best for you and won't put you into a certain investment just because other customers are.

—Pays attention and acts on what you say. If you tell a good account executive that you don't want a certain degree of risk or a certain type of investment, then that account executive won't be constantly recommending that investment to you. On the other hand, a good account executive will try to find out why you don't want a particular investment and may even recommend the investment if he or she believes that such an investment is best for you.

—Explains things until you understand. The securities business is very complicated and can be difficult to understand, especially if things aren't explained properly. A good account executive will provide you with information and will take as much time as necessary to explain a proposed transaction until you understand. Remember that this is your investment—you have every right to understand *exactly* what is going to happen with it.

—Registered with the Securities Division and does not have a history of customer complaints. The Securities Division keeps a register of Missouri account executives and has their reported disciplinary history on file. While an occasional customer complaint may be inevitable, an account executive with a history of customer complaints should probably be avoided by the beginning investor. To find out about your account executive's registration and history you can call the Securities Division, or you can ask your account executive directly.

New account forms

Once you have chosen a broker and account executive, you will be asked to fill out new account forms. These forms usually require you to give personal financial information and to state your investment objectives. It is very important that you provide accurate and frank responses. Under Missouri law, your account executive is obligated to only recommend transactions believed to be suitable based on your financial needs and objectives. Keep in mind that you are paying for the services of an expert whose advice can only be as good as the information it's based on. Be sure to fill in all the blanks, marking through those that do not apply, and sign the form. NEVER sign a blank form.

**Your
investment
objectives**

Before you fill out your new account form and begin to invest, think about exactly what you want to accomplish by investing. Your goals can range from a desire to put your money in as safe a place as possible where it can grow at at least the inflation rate, to a desire to risk everything for the chance to hit it big.

The rule of thumb to keep in mind is that the lesser the risk, the lesser the return. When you have your investment goal clearly in mind, explain your ideas to your account executive. It will be your account executive's job to help you translate those goals and ideas into an investment strategy that meets your requirements for both risk and return.

**Get all the
information
you need**

One of the best ways to safeguard your investment is to understand what your account executive is doing in your account. The first way to accomplish this is to ask your account executive. If your account executive suggests that you invest in a "preferred stock", ask about the difference between that and common stock. Ask about the differences in price, in dividends, in rights upon merger or acquisition of the company, in voting rights and in your rights and priority if the company in which you are investing goes bankrupt.

The second way to get information is to do some research on your own. There are numerous good, solid publications on the fundamentals of investing. Your broker may publish some of its own. For example, Merrill Lynch publishes a paperback book, *"How to Buy Stocks"* available at a small fee. Your local library or book store may have copies of that or other excellent guides for beginning investors.

**Know what's
happening in
your account**

After every transaction, you should receive a trade confirmation and every month you should receive a monthly statement. Review those documents carefully and make certain that they are correct in reflecting what happened in your account *and* that what happened was what you wanted to have happen. If you don't understand the confirmations or the statement, don't be shy about having your account executive review them with you—it's a service you are already paying for. Keep your own complete set of records about your account, and include notes of conversations with your account executive and any correspondence from your broker or account executive.

**If something
goes wrong**

If you notice that something seems wrong on your statements or in your account, complain immediately to your account executive. Always follow up every telephone call complaint with a letter to confirm the matters discussed on the telephone. If you do not receive a satisfactory answer to your complaint from your account executive, complain to the branch manager of the broker, then to the Compliance or Legal Department. If you still have not received a satisfactory answer, then file a complaint with the Securities Division.

**Look ahead
when you
invest**

You will be tempted to invest in particular securities because of good rates of return or apparent safety, but you should also take a moment to consider other factors that will become more important as you continue to hold the securities. One such factor to consider before you invest is whether there is a ready market for the securities should you decide to sell them. Another factor may be

voting rights that do or do not attach to the securities (voting rights can affect management decisions, and in the long run, your return). You should find out whether the securities are restricted in any way.

Your account executive should be able to answer your questions and, in many cases, you will be provided a prospectus that should contain all material facts about a proposed investment. If you are given a prospectus, take the time to read it, or at the very least, read the risk factors and history.

**There is
always risk!**

Whenever you purchase securities, there will always be a risk of loss. Although in some cases the risk will be extremely small (as is the risk of the U.S. Government being unable to meet its debt obligations), in some cases it will be very great (as is the case of certain options transactions where the chance of unlimited loss is almost 50-50, depending on the type of transaction). There is always a risk, when investing in a private company, that the company might go bankrupt. Bankruptcy happens to all sorts of companies, even old, reputable companies that seem like they would provide a rock-solid investment. For this reason, it is usually a bad idea to invest all of your money in any one security. If safety of investment is one of your goals, you and your account executive should explore diversification of your account to increase safety.

**Services of
the Missouri
Division of
Securities**

The Missouri Securities Division is a division of the Office of the Secretary of State. The Securities Division licenses broker-dealers and account executives (who hold “agent” licenses). The staff of the division is available to answer questions, take

complaints or check licenses and disciplinary history between the hours 8:00 a.m. to 5:00 p.m. The office is located in Room 229 of the James C. Kirkpatrick State Information Center in Jefferson City

Inquiries about licenses:
(573) 751-2061

Complaints and questions:
(573) 751-4704

Toll-free hotline:
(800) 721-7996

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